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ABSTRACT

In 1999, Illinois enacted its tuition tax credit law, which offers tax credits to taxpayers whose own children are attending school, as opposed to tax credits to businesses and/or individuals who contribute to tuition scholarship programs. Recent data suggest that the Illinois tax credit program is benefiting middle- and upper-class families more than disadvantaged students and families. This paper examines how the Illinois law works, describes the Illinois tax credit debate, and focuses on who benefits and who gets hurt. It concludes that by enacting tuition tax credits, Illinois has severely short-changed its low-income public schools and their students. At a time when the state's tax collections have been severely reduced by the nation's economic slowdown, diverting $61 million (in 2000) through tuition tax credits, with similar or greater costs foreseeable each year thereafter, only adds further strain to Illinois' public schools. Research indicates that this effect is not unique to Illinois, and Illinois' experience reinforces conclusions reached by the People for the American Way Foundation and others that such tax credits primarily benefit wealthier citizens, do not help poor families, and undercut states' abilities to target needed resources to help raise student achievement in less affluent public schools. (Contains 50 endnotes.) (SM)

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MISPLAYING THE ANGLES:

A Closer Look at the Illinois Tuition Tax Credit Law

September 24, 2002

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An Overview

The Illinois Legislature enacted its tuition tax credit law in 1999. While tuition tax credit laws in other states provide tax credits to businesses and/or individuals that contribute to tuition "scholarship" programs, the Illinois law offers tax credits to taxpayers whose own children are attending school. Yet, in enacting this law, Illinois was not breaking new ground.

Indeed, tuition tax credits are not new. Since 1972, in fact, there have been 12 attempts to secure voter approval of tuition tax credit or school voucher referenda that would enable public tax dollars to subsidize private and parochial education. Voters have defeated every one of these referenda—usually by overwhelming margins.[1]

Recently, tuition tax credits have gained new interest and attention, as some proponents have suggested that tuition tax credits are a viable alternative to more controversial voucher programs.[2] Other supporters view tax credits as a complement to vouchers. Florida Gov. Jeb Bush has successfully pushed for the enactment of both voucher and tax credit programs. The president of the pro-voucher Children First America recently saluted the work of the Arizona legislator who sponsored the state's tuition tax credit law.[3]

Tuition tax credit advocates have responded to defeats at the polls by focusing their efforts on state legislatures. As their model, many proponents have cited the Arizona tuition tax credit law, which allows taxpayers to receive credits for contributing to private voucher funds for other parents' children.[4] Lisa Graham Keegan, who was the state's superintendent of public instruction at the time, hailed the 1997 law for being "responsive to the needs of disadvantaged students and their families."[5]

Within the past year, however, two analyses have found that the Arizona law disproportionately benefits wealthier families, including many parents whose children were already enrolled in private schools.[6] According to *The Arizona Republic*, when confronted with these findings, a spokesperson for the pro-tax credit Goldwater Institute said that helping poor kids really wasn't the purpose of the tuition tax credit law; it was just a way to get the law passed. Goldwater's Darcy Olsen was unusually candid. "Has it only helped [poor families] more than moderate and wealthy families? Probably not," she told the newspaper. "If it was sold that way, it's only an angle."[7]

Arizona is not the only state in which tuition tax credit supporters have used this "angle" to help garner support for this approach. This is also how supporters pitched the 2001 Pennsylvania law that offers tax credits to businesses contributing to private-school tuition funds.[8] Just last month, however, an analysis of the Pennsylvania law concluded that middle- and upper-income families are receiving the lion's share of tax-credit dollars through private-school tuition assistance.[9]

In spite of differences in how Illinois' tuition tax credit law is structured, recently available state data indicates that the Illinois tax-credit program is having a very similar impact.[10] A closer examination of the Illinois tuition tax credit law reveals why this is so.

How the Illinois Law Works

As noted earlier, the Illinois tax credit law is distinct from the Arizona or Pennsylvania laws because the Illinois law provides benefits to taxpayers for their own children's school expenses.

Illinois' law allows parents to claim a tax credit on tuition, books and lab fees at public, private and parochial schools. Taxpayers can annually claim a 25 percent credit on qualified educational expenses they incur over and above $250, up to a maximum of $500 per family.[11] In order to claim the maximum credit of $500, parents would therefore have to spend $2,250 on qualified educational expenses. To claim a $100 credit, parents have to spend $650 on qualified educational expenses. Tax credits can be claimed for any full-time student enrolled in a K-12 school, who is a resident of Illinois and is under 21 years of age.[12]

While the Illinois law is written to potentially benefit taxpayers whose children attend public schools, a closer look reveals that, in practice, public school parents receive very little in the form of tax credits. Since only private schools charge tuition—which can be a significant expense—the tax credit serves primarily as a reward for Illinois parents with children in private schools. Indeed, the law's inclusion of public schools may simply have served as the "spoonful of sugar" that helped "the medicine go down."

When the Illinois tuition tax credit proposal was being debated, one pro-tax credit group claimed the measure's impact "will be greatest on families of modest means..." Yet this promise has not been fulfilled.

The Tax-Credit Debate in Illinois

When the Illinois tuition tax credit program was first proposed, critics charged that such tuition tax credits would benefit higher-income families whose children were already attending private and parochial schools. Opponents also voiced concern that such a program would decrease already limited resources available for public schools.[13]

Proponents claimed the tax credits would have the greatest beneficial impact on poorer families, asserting that it would provide them with a broader range of educational options and choices. The Institute for Justice, a pro-tax credit organization, explained it this way: "The tax credit will make it easier for ... all Illinois parents to send their children to the schools they believe will best meet their children's needs. *Its impact will be greatest on families of modest means,* for whom an additional $500, in many cases, will make the difference in being able to afford tuition at the school of the parents' choice." [emphasis added][14]

The facts, however, contradict proponents' claims. The overwhelming bulk of Illinois' tuition tax credits have proven to be a windfall for middle- and upper-income families, while low-income families—who pay fewer taxes—receive little, if any, benefit from the credit.

Data has recently become available from the Illinois Department of Revenue concerning the impact of the tax credit in 2000, its first full year of operation. In that year, tuition tax credits cost the state more than $61 million. Of this amount, relatively few dollars (approximately

$1.7 million) were directed to poor families. By contrast, nearly half of Illinois' tax-credit benefits—46 percent—have gone to families earning over $80,000.[15] In the meantime, the tax credit law has depleted state funds, undercutting needed improvements that could raise achievement among low-income and disadvantaged students.

At a time when state budgets in Illinois and across the country are constrained by a sluggish economy, many public schools are being forced to limit spending on critical education programs, including teacher and staff development, class-size reduction, bilingual education and special education programs. Instead of providing public schools with adequate resources to support and strengthen these and other programs, tax credits like Illinois' offer millions of dollars in a back-door tax cut to a relative handful of wealthier taxpayers, while penalizing lower-income parents and the public schools.

The Illinois Law: Who Really Benefits

Data released from the Illinois Department of Revenue for the first year that the tuition tax credit was available (2000) reveals that the state's education tax credit is regressive, benefiting many more middle- and upper-income families than those with incomes less than $20,000. (This figure is used as a benchmark since it is only slightly higher than the federal poverty line for a family of four: $18,100.)[16] For example, taxpayers earning more than $80,000 annually claimed 46 percent of the entire $61 million credit amount in 2000, or $28.2 million. Taxpayers earning $60,000 or more claimed almost two-thirds of the total credit. On the other hand, less than 3 percent of the total credit was claimed by taxpayers making less than $20,000 a year (see table below).[17]

In the year 2000, *less than one half of 1 percent* of all Illinois taxpayers earning less than $20,000 claimed a tax credit under the state law. This income group received a total credit amount of $1.7 million. By contrast, almost 13 percent of all taxpayers making more than $60,000 claimed the credit, costing some $40 million (see table).[18]

Fiscal Impact of Illinois Education Tax Credit, 2000

Adjusted Gross Income	*Total Cost*	*Number of Taxpayers Taking the Credit*
Below $20,000	$1,777,291	9,402
$20,000-$40,000	$8,478,316	25,282
$40,000-$60,000	$10,854,014	30,032
$60,000-$80,000	$11,933,038	31,523
Above $80,000	$28,190,366	69,542
Totals:	**$61,233,025**	**165,781**

Source: Illinois Department of Revenue and Research, June 2002. (Adjusted gross income is the figure reported on state income tax returns.)

In short, taxpayers claiming a tax credit who earned more than $80,000 received nearly 16 times more benefits than those earning less than $20,000. The few taxpayers using the credit whose incomes were below $20,000 received an average tax credit of only $189, while those making more than $80,000 reaped an average benefit that was more than double: $405.[19]

In addition, the $250 minimum expense requirement means that most families with children in public schools will probably be ineligible for the credit. In a suit challenging the constitutionality of the Illinois tax credit in the fall of 2000, the plaintiffs estimated that public school students pay tuition, book fees and lab fees of less than $40 on average.[20] For example, in Joliet, a low-income school district, no families with children in public elementary schools would have been eligible to receive the tax credit because their public school expenses were too low. A family would need three children in Joliet public high schools in the same year just to reach the $250 threshold for minimum eligibility.[21]

In the year 2000, taxpayers earning more than $80,000 claimed 46 percent – nearly half – of all tax credit dollars under the Illinois law. That year, only a handful of low-income citizens claimed a tax credit.

Since wealthier families are more likely to send their children to private schools, the $250 minimum expense requirement effectively tilts the distribution of tax credit dollars in favor of wealthier taxpayers—and the private schools their children attend.[22] State Senator Dan Cronin, R-Elmhurst, who sponsored the law, acknowledged that the law would help the "non-public school system" remain "viable."[23]

Of the more than 323,000 K-12 students enrolled in Illinois private schools, approximately two-thirds are in Catholic schools.[24] Not surprisingly, the Illinois Catholic Conference lobbied heavily in favor of tax credits. In fact, Governor George Ryan signed the bill into law in June 1999 at St. Stanislaus Kostka Catholic School in Chicago, a not so subtle clue concerning the law's intent—to primarily benefit private and parochial schools.[25]

The Catholic Conference of Illinois has admitted that the tax credit particularly benefits those students *already* enrolled in private schools and acts as an incentive for parents to keep their children in private, religious schools. According to Joan McKinney, associate director for the Catholic Conference of Illinois, the credit has not resulted in increased enrollment in Catholic schools, but it "may keep people in [parochial] schools who may otherwise have left."[26]

To date, the average Illinois tax credit has amounted to approximately $369 per taxpayer. To claim this credit, a parent would have to spend about $1,726 in educational expenses. As previously stated, few public school expenses reach this level. Many private schools, including Catholic schools, however, charge students tuition between $1,300 and $2,200 a year.[27]

As a result, parents with children enrolled at such schools can easily take the maximum amount of the tuition tax credit ($500) for their children's education expenses. Other private schools located across the state charge an annual tuition of more than $5,300.[28]

Given that many parents with children in these schools would have enrolled their children in private schools even without the credit, the tax credit effectively allows these parents to subsidize a private school education with dollars that could otherwise have gone to public schools or other state priorities.

The Illinois Law: Who Gets Hurt

The nation's economic downturn has negatively affected Illinois' revenues during the current fiscal year. This is forcing state officials to make deep cuts in services, lay off employees and raise taxes in order to meet current and projected budget deficits. Instead of collecting an expected $850 million in revenue growth in 2002, Illinois' state income tax collection was reduced by $650 million compared to the previous year. This reduction represented the largest state revenue loss in 50 years, creating a budget deficit of $1.5 billion.[29]

At such a time, diverting tax dollars from the state treasury through tax credits raises particular concerns. Overall, Governor George Ryan and state legislators made approximately $176 million in cuts to the elementary and secondary education budget in order to balance the state budget for fiscal year 2003. In total, nearly $1 billion was cut from the state budget to erase a $1.5 billion budget deficit.[30] Funding cuts have dealt a blow to reading programs, special education, early intervention, and other critical programs for at-risk students. Moreover, this situation was worsened by the more than $61 million that Illinois lost from the state treasury in the form of tuition tax credits.

Among the $176 million in state education cuts were the following:[31]

- General state aid was reduced by $111 million.
- Early intervention was cut by $3 million.
- Teacher training programs such as professional development and certification renewal were reduced by approximately $3 million.
- Special education services were cut by a total of $32.9 million.
- Academic difficulty programs such as bilingual education, parental involvement and extended programs were reduced by $10.8 million.
- Student transportation declined by $8 million.
- School safety and education improvement were reduced by $3 million.
- Free and reduced price lunch program was cut by $758,000.

In the absence of the tuition tax credit law, more than one-third of the $176 million in K-12 budget cuts would have been unnecessary.

For example, facing a huge budget deficit that prompted a property tax increase, the Chicago public schools have eliminated more than 370 administrative positions that oversee many critical functions of the district, including procurement, purchasing, and the hiring of teachers and other staff. Chicago public schools have also reduced the hearing budget for truant students by $1 million and decreased a community-based tutoring program's staff from seven employees to two.[32]

Similarly, by early summer, Wheaton-Warrenville District 200 was facing a proposed budget deficit of more than $10 million as state funding decreased. Even though it has yet to finalize its budget, the district's school board had already approved more than $1.6 million in cuts taken from school supplies, teacher training and hiring of aides. Attempting to forestall more cuts, the district also has increased fees for technology and driver's education classes.[33]

Implications for Illinois' Future

In addition to budget problems made worse by a sluggish economy, Illinois faces other challenges. The state ranks a dismal 49th out of 50 in providing public schools with equitable funding.[34] A recent study conducted by The Education Trust similarly found that Illinois ranks 49th out of 50 states in providing tax dollars to schools with a high concentration of low-income students. In fact, according to the group's analysis, schools teaching the largest number of poor students in Illinois receive $2,060 *less per student* from state and local government sources than schools with the fewest low-income students.[35] Additionally, state legislators and Governor George Ryan have not increased per-pupil spending for the 2003 budget cycle, instead choosing to maintain the current foundation funding at $4,560 per pupil, forcing schools to once again rely on other sources to adequately fund critical public education programs.[36]

These funding inequities promise to get worse as Illinois has shifted more of the burden of funding public education to local taxpayers.[37] As discussed above, in the final 2003 budget (July 1, 2002 through June 30, 2003), Governor George Ryan and state legislators have decreased general state aid to education by $111 million.[38] Essentially, the state has decreased its share of education costs from 33.5 percent in the current budget to 31.5 percent in the 2003 budget.

By embracing tuition tax credits, Illinois is effectively reallocating education dollars to middle- and upper-income students. This reallocation comes at a time when the state ranks 49th out of 50 in funding equity.

State officials claim that an increase in federal allocations and property taxes will ensure an increase in education revenues for the following school year. However, federal allocations are aimed at specific programs such as special education and bilingual education, and at implementing the recently reauthorized federal Elementary and Secondary Education Act. Educators have suggested that any increase in local and federal funds would be woefully inadequate to pay for the increasing costs of teacher salaries, health care coverage for staff and other expenses.[39]

To offset the decline in state spending, Chicago-area taxpayers could see a hike in property taxes to the maximum allowed by law. In Chicago, a 3.8 percent hike in taxes would add $20 a year to the tax bill of a home with a fair market value of $100,000. This would generate approximately $57 million in new tax dollars.[40] Yet many public school districts have already relied heavily on tax increases as a means to offset the significant drop in state funding. One such district is Springfield, where local property tax revenue—which pays for approximately 59 percent of its education budget—has risen for each of the past five years to offset state funding reductions.[41]

Even many school systems serving relatively affluent areas are taking it on the chin financially. For example, DuPage County schools will lose $10.5 million in general state aid and $3.3 million in special education funding. The county's largest school district, Indian Prairie Unit District 204, will take the biggest hit, losing an estimated $7.7 million. State officials hope that rising home values and economic growth, coupled with more federal

money, will help offset the decrease from the state.[42] Additionally, a flat per pupil foundation level further exacerbates this disparity in school funding.[43]

These budgetary pressures have a major impact on both teacher salaries and the teaching conditions within school districts, restricting the ability of less affluent districts to attract and retain a quality teaching force. The consequences are well documented.

In September 2001, the *Chicago Sun-Times* published a series of investigative reports on how the city's poor, minority and low-scoring public schools are less likely to hire certified teachers. In fact, such schools are five times more likely to employ teachers who have failed at least one certification test.[44] Similarly, according to a recent audit conducted by the Chicago Board of Education, more than 900 teachers—one in every five—did not have full certification to teach all their students. In the 81 probationary schools in Chicago—those with the greatest need and lowest test scores—22 percent of teachers were not adequately certified to teach their classes.[45]

The lack of qualified teachers and adequate funding has created an appalling achievement gap between Illinois' low-income students and those who live in higher-income neighborhoods. A recent state-commissioned study conducted by Northern Illinois University's Glen McGee (formerly the state superintendent of schools) criticizes the current state administration for not doing enough to help low-income schools. For example, last year, only 40 percent of low-income third-graders scored at their grade level compared with 74 percent of higher-income students. In high schools, even fewer low-income students—less than a third—met reading standards compared with 63 percent of their higher-income counterparts.[46]

While the $61 million diverted to tuition tax credits in 2000 would not have solved all these problems, it could have helped Illinois target funding to low-income public school districts. These additional funds would have been especially welcome at a time when a weak economy is placing additional hardships on school districts across the state.

Conclusion

By enacting tuition tax credits, Illinois has severely short-changed its low-income public schools and their students. At a time when the state's tax collections have been severely reduced by the nation's economic slowdown, diverting $61 million in 2000 through tuition tax credits, with similar or greater costs foreseeable each year thereafter, only adds further strain to public schools across Illinois.

Even as the recently reauthorized federal Elementary and Secondary Education Act raises the stakes much higher for the 50 states, Illinois' budget cuts are forcing public schools to make do with fewer resources, creating major obstacles to improving student performance—particularly among low-income school districts. Diverting tax dollars to relatively affluent families only serves to exacerbate, rather than ameliorate, the inequities in educational resources and in public schools.

As noted earlier, this effect is not unique to Illinois.[47] According to the Arizona Department of Revenue, in 1998 more than 70 percent of that state's tax credit claimants had an income surpassing $50,000.[48] In contrast, less than a quarter of the claims were made by taxpayers

earning less than $50,000. Worse yet, only 2 percent of tax-credit claims were made by families earning less than $20,000.[49]

The Catholic Conference of Illinois has admitted that the state's tax credit particularly benefits those students already enrolled in private schools.

In Pennsylvania, several private school officials have admitted that students *already* enrolled in their classrooms are using most of the tuition tax-credit scholarships provided under the state's law. A number of the schools benefiting from Pennsylvania's tuition tax credit are in affluent and middle-class neighborhoods, rather than low-income areas where the neediest students tend to live. In the first year that the Pennsylvania tax credit was available (2001), approximately three-fourths of the total donations to tuition organizations—nearly $13.6 million—went to organizations that directly support religious schools.[50]

The fact that low-performing public schools are more likely to operate in low-income districts and neighborhoods only reinforces the need for states to invest in these schools. Efforts to adequately fund low-performing schools and to ensure that all students have access to a high-quality public education are seriously undermined if already limited funding is further reduced by tax credits that divert needed funds to wealthier families.

In short, the experience in Illinois closely reflects the conclusions reached by PFAWF and others who have examined tuition tax credit programs in other states. Such tax credits primarily benefit wealthier citizens, do not help poor families, and instead undercut states' abilities to target needed resources to help raise student achievement in less affluent public schools.

Although tuition tax credit advocates in Illinois and other states have framed their efforts as a way to assist low-income families, ample evidence reveals that this message is—in the words of a supporter—nothing more than an "angle." Like the Arizona and Pennsylvania programs, Illinois' tuition tax credit undermines the historic commitment that the nation has made to guarantee *all* children a high-quality education.

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